



# Wild Oats Grainworld 2013

## CBOT Grain Marketing Workshop

# Wild Oats Grainworld 2013

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## *Practical Option Hedging Applications*





**David Derwin ♦ Joseph Alkana ♦ Adam Pukalo**

*Associate Portfolio Manager  
Investment Advisors  
Commodity Futures Advisors*

**PI Financial Corp.**

*[www.Commodity-Options.ca](http://www.Commodity-Options.ca)*



## Overview:

- *Manage your risks before they manage you* ©
- *Research: Fundamental, Technical, Volatility, Seasonal*
- *Larry Rigaux, President Phoenix Agritec Inc.*
  - *Practical Option Hedging Examples*

Funny Business by HEALE

AS USUAL WITH YOU PEOPLE, JACKSON, IT'S TOO LITTLE, TOO LATE

THE RISK MANAGEMENT DEPARTMENT IS OPEN





***“Manage your risks before they manage you.®”***

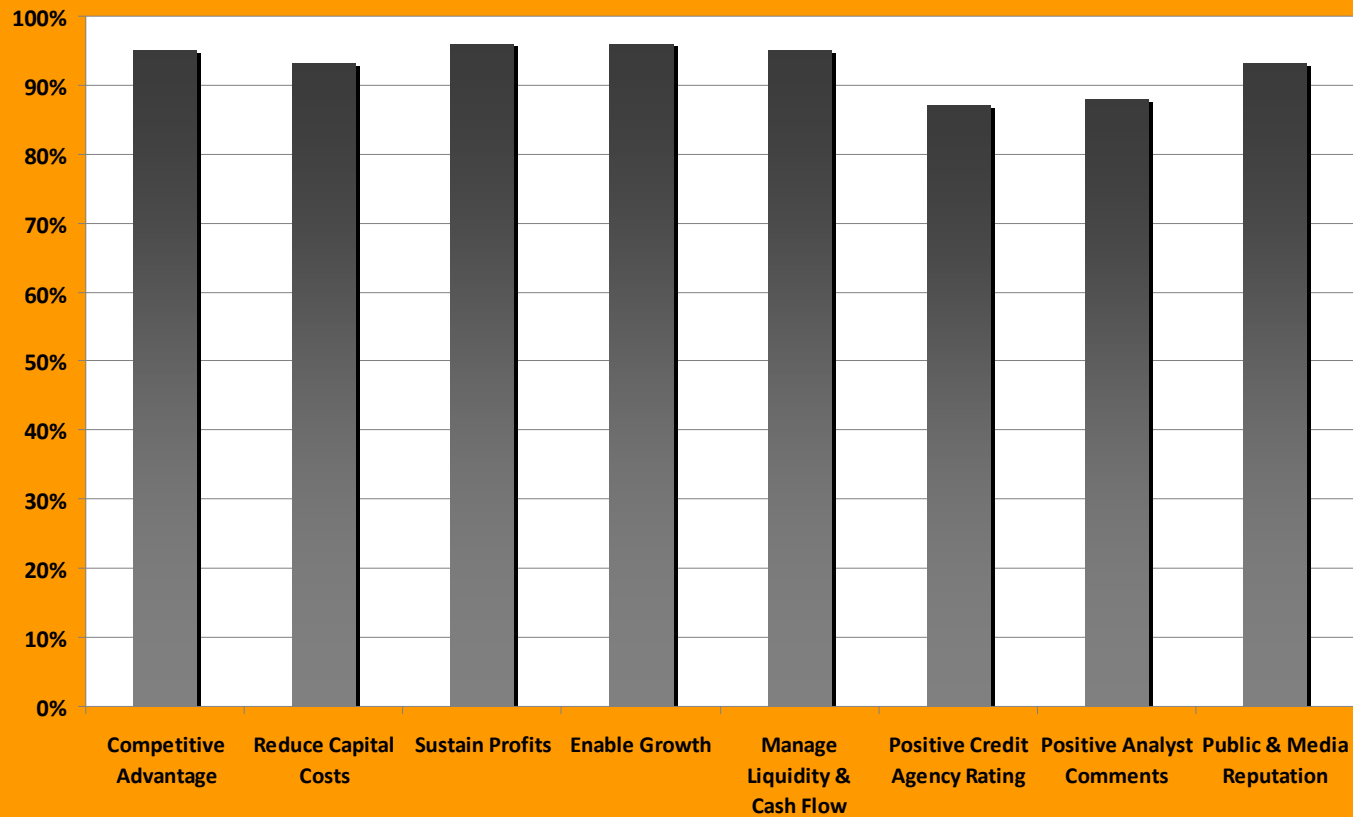
## Risk Management:

- *Education*
- *Proactive*
- *Disciplined*
- *Straightforward*



## Benefits of Risk Management:

% Respondents Affirming a Positive Impact from Risk Management on Specific Outcomes



Source: Managing Risk for High Performance in Extraordinary Times: Report on the Accenture 2009 Global Risk Management Study [www.accenture.com](http://www.accenture.com)



***“Market Analysis for Risk Management Planning”***

**Larry Rigaux**

***President & Director Research***  
**Phoenix Agritec Inc.**

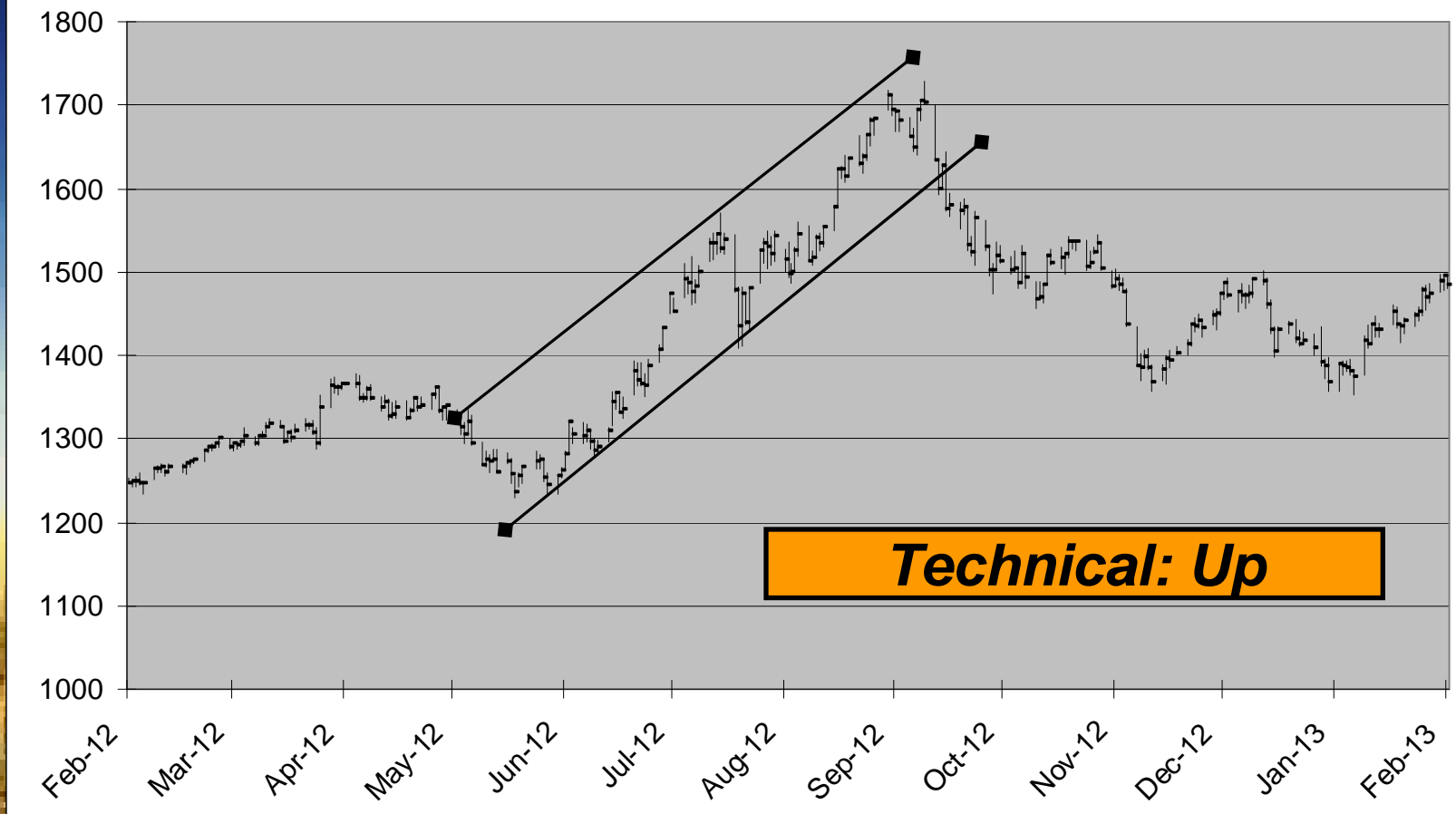
***[www.phoenixagritec.com](http://www.phoenixagritec.com)***



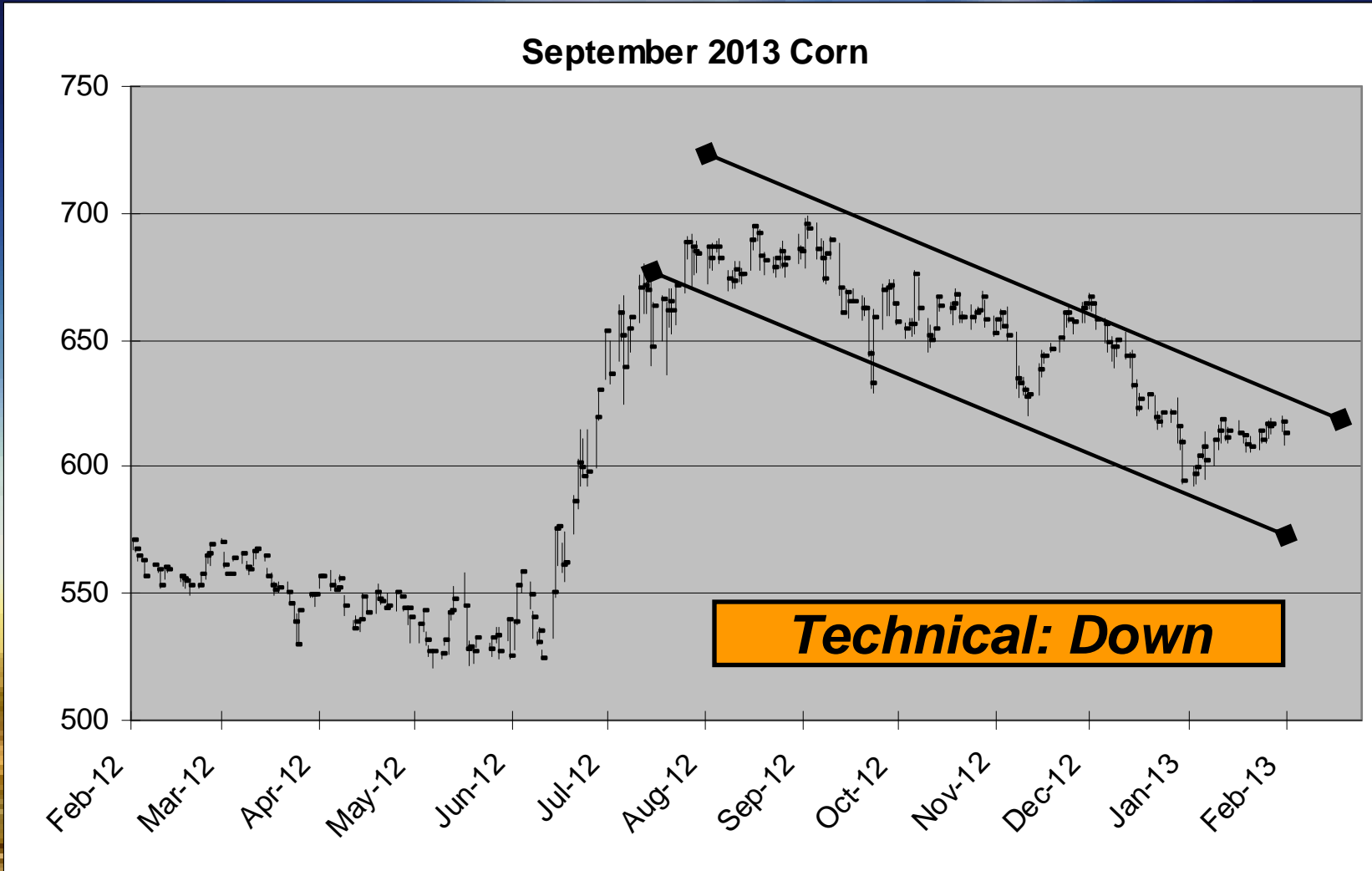
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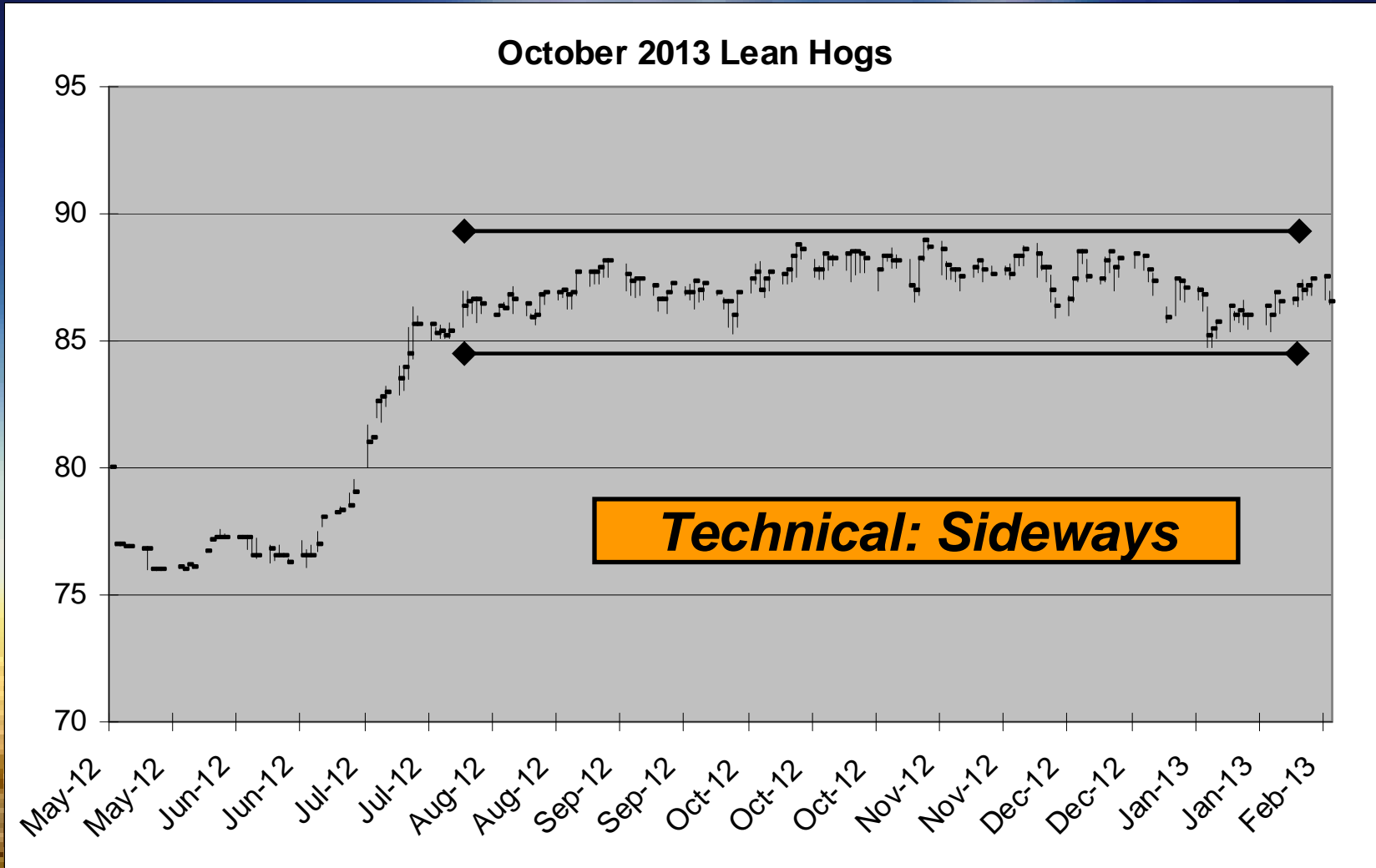


### March 2013 Soybeans



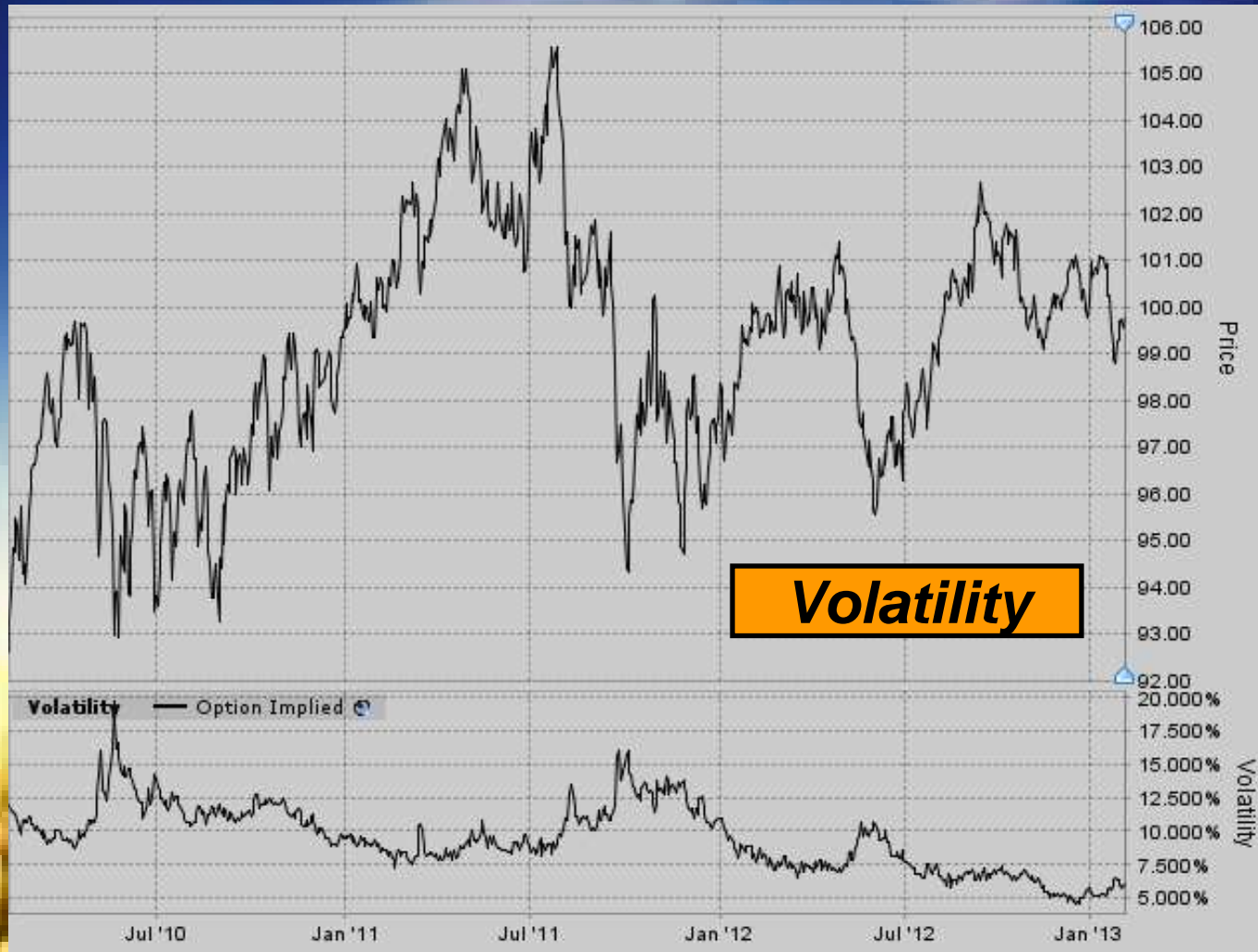
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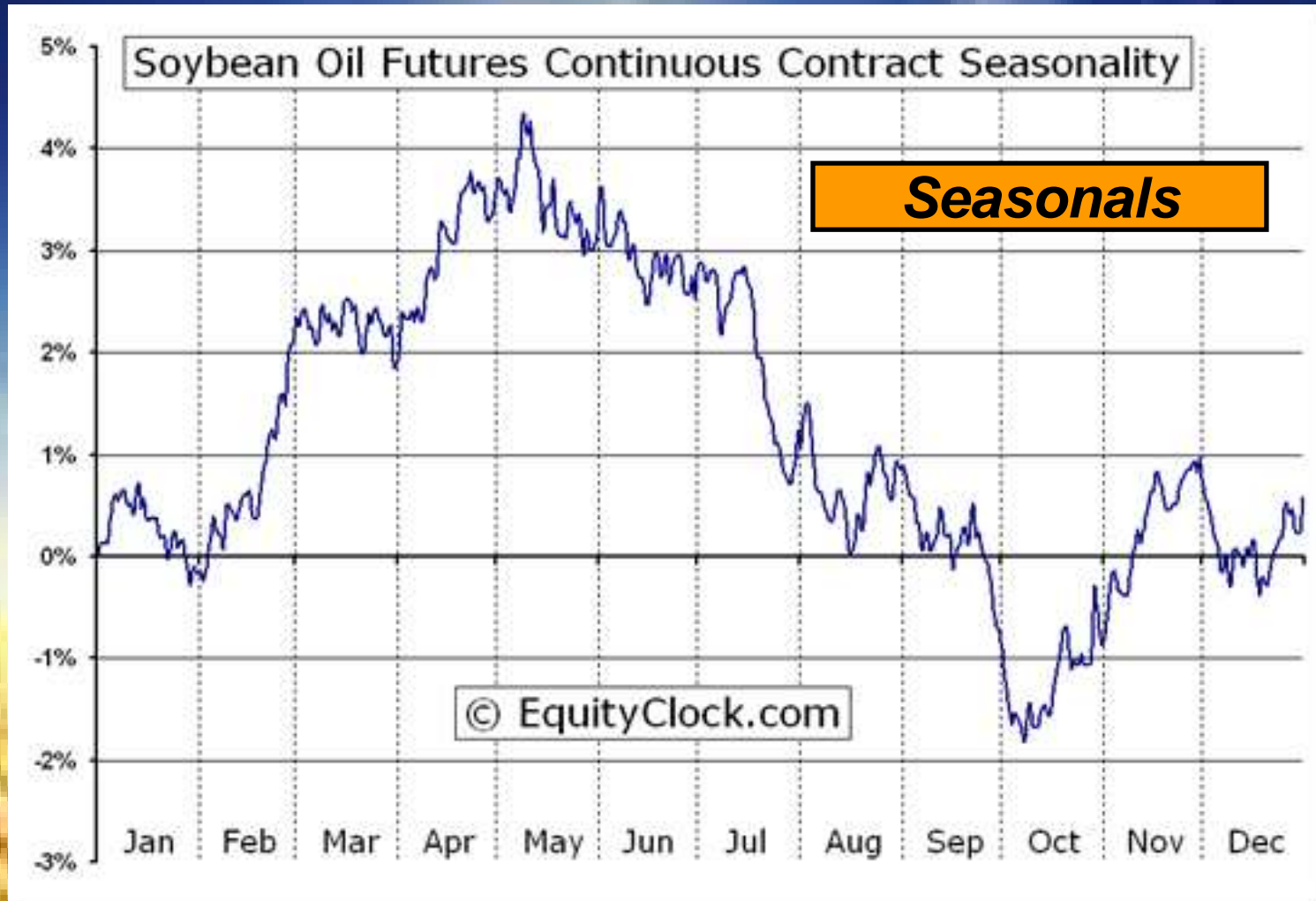


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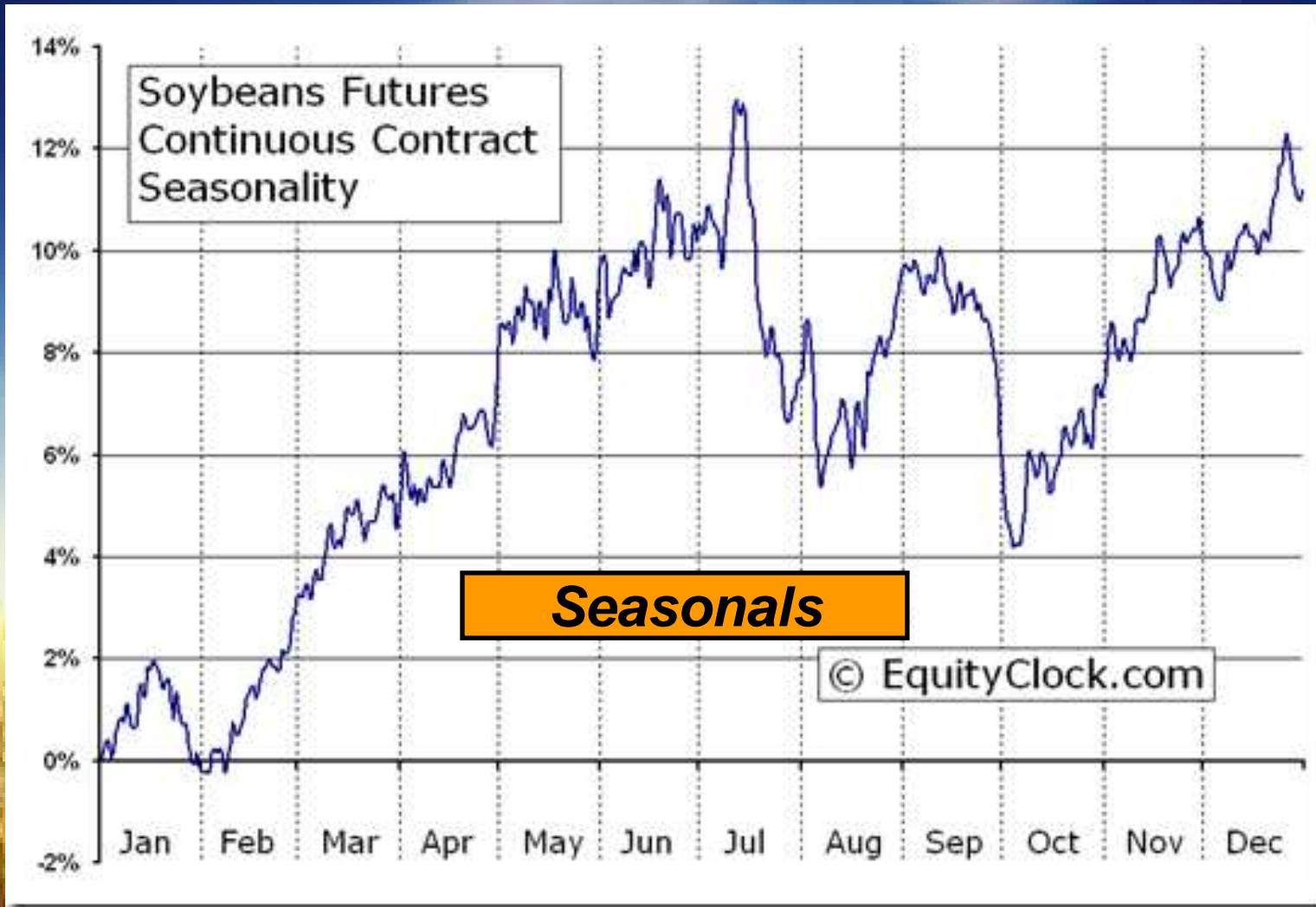
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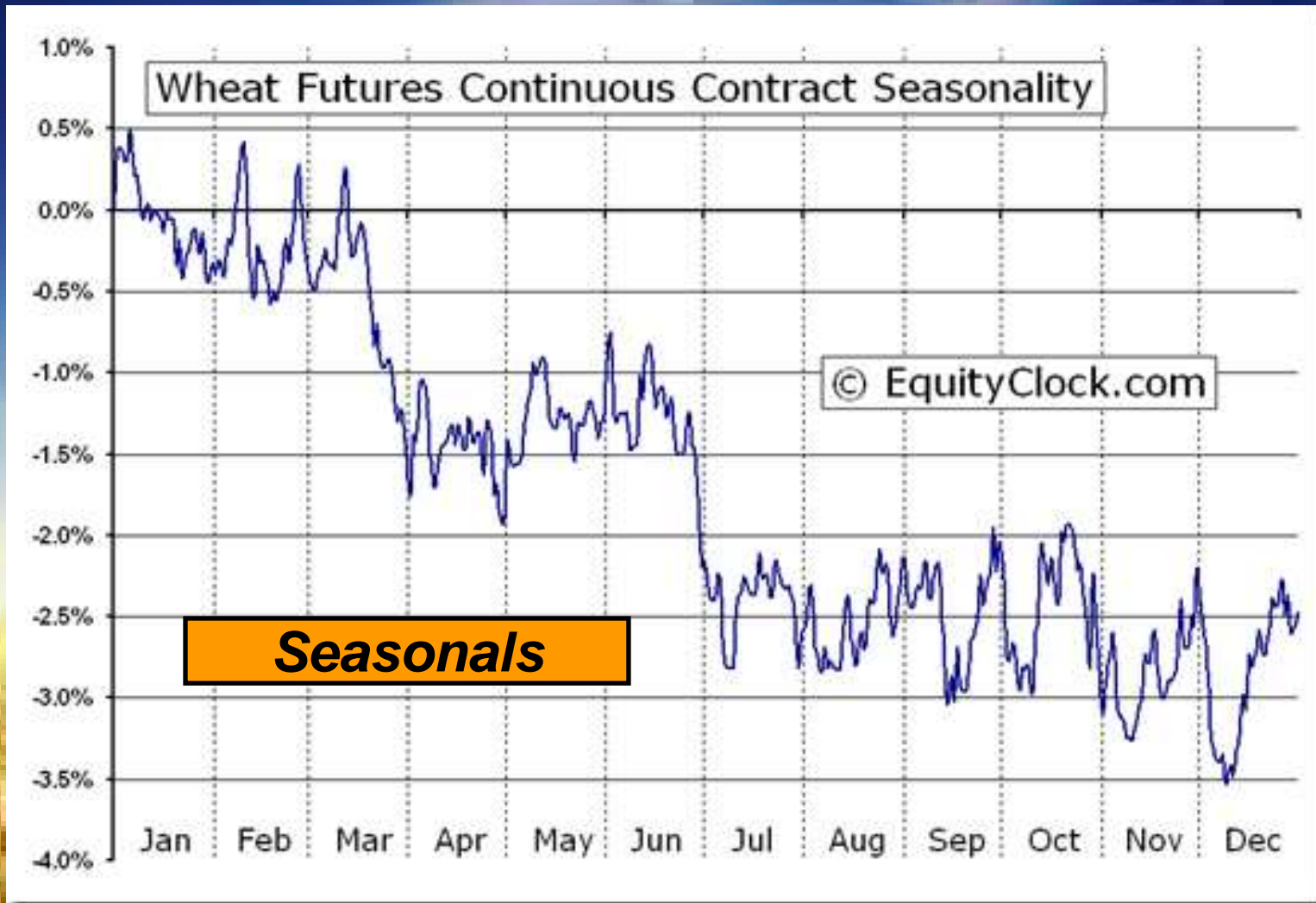
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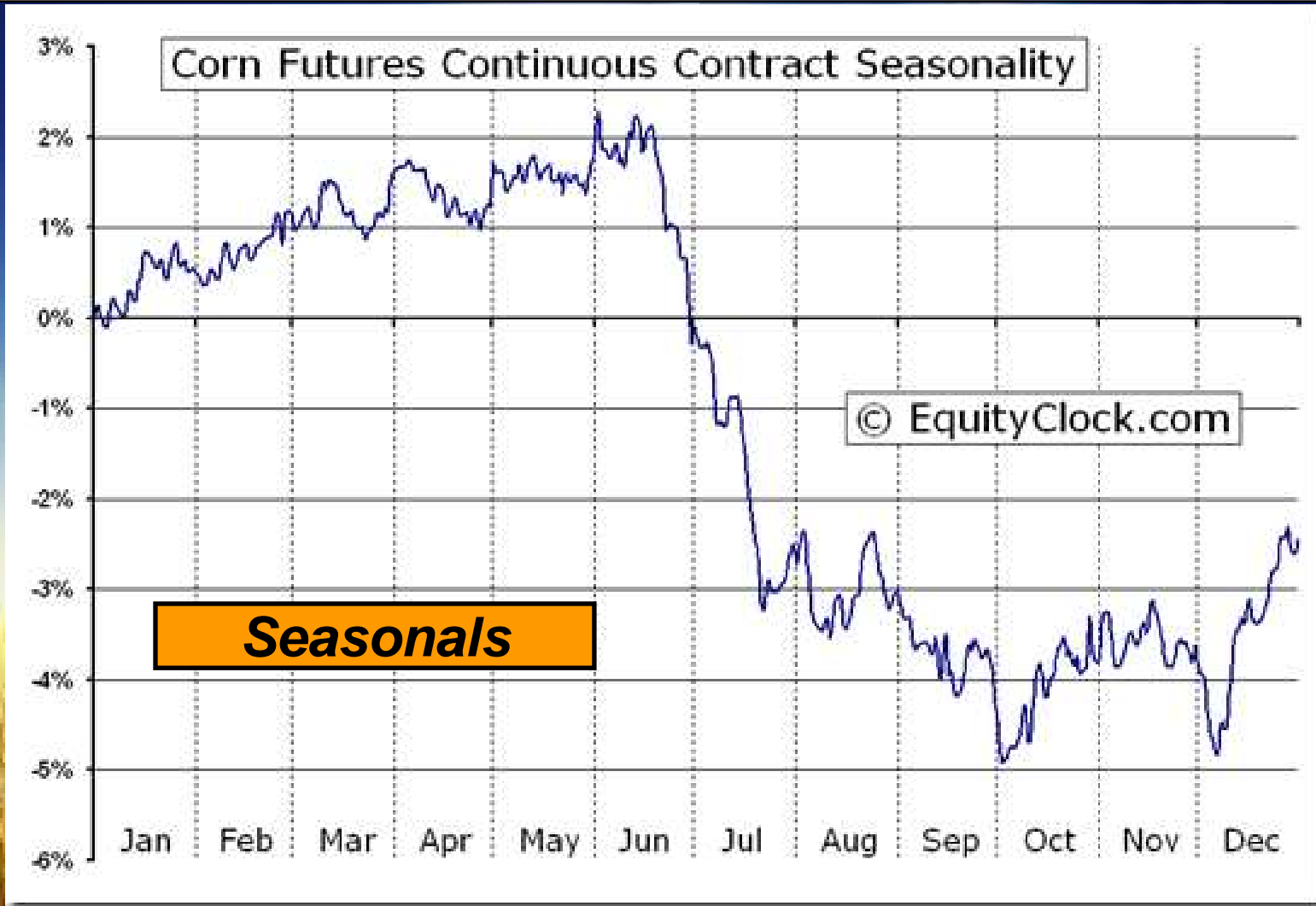
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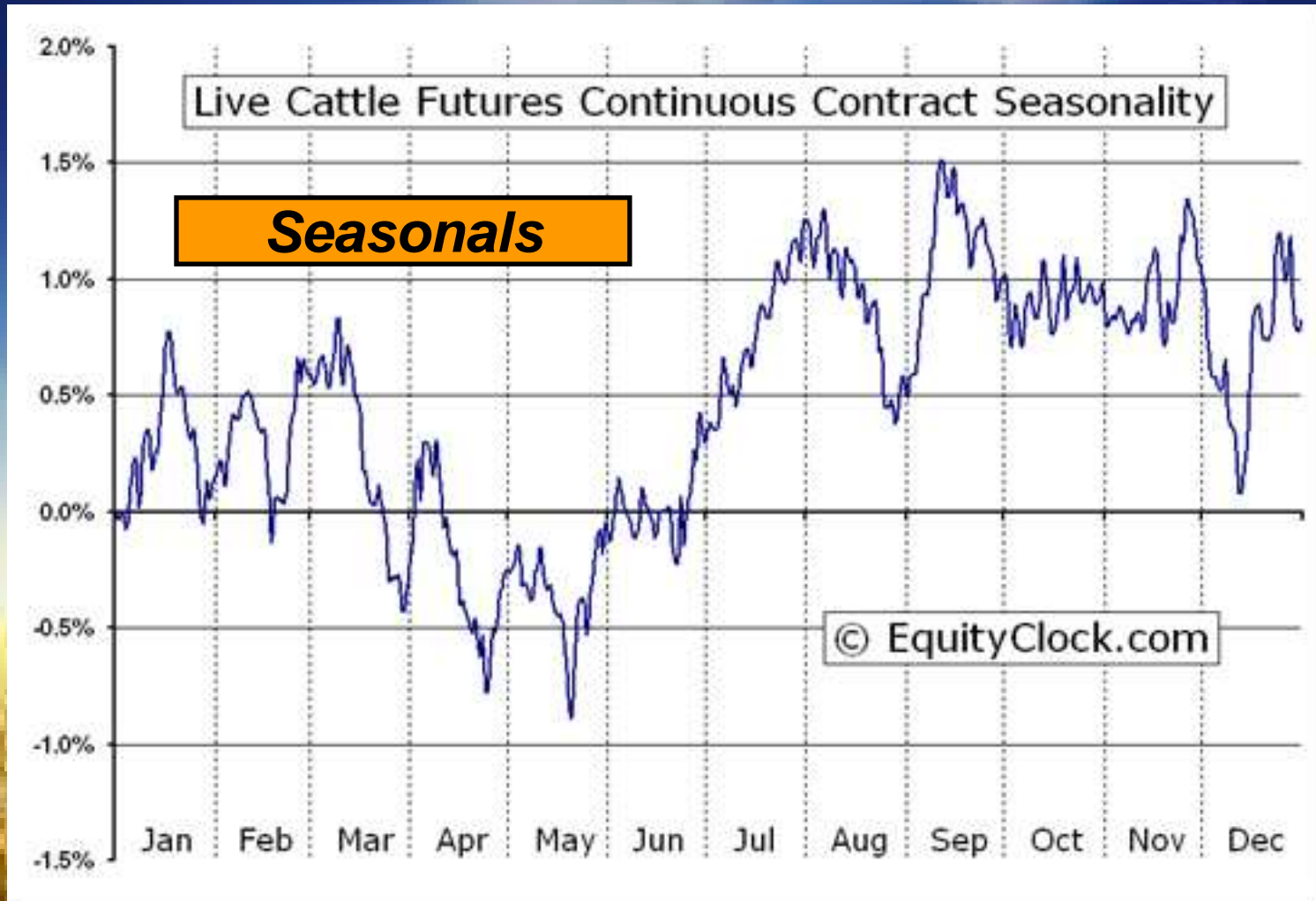
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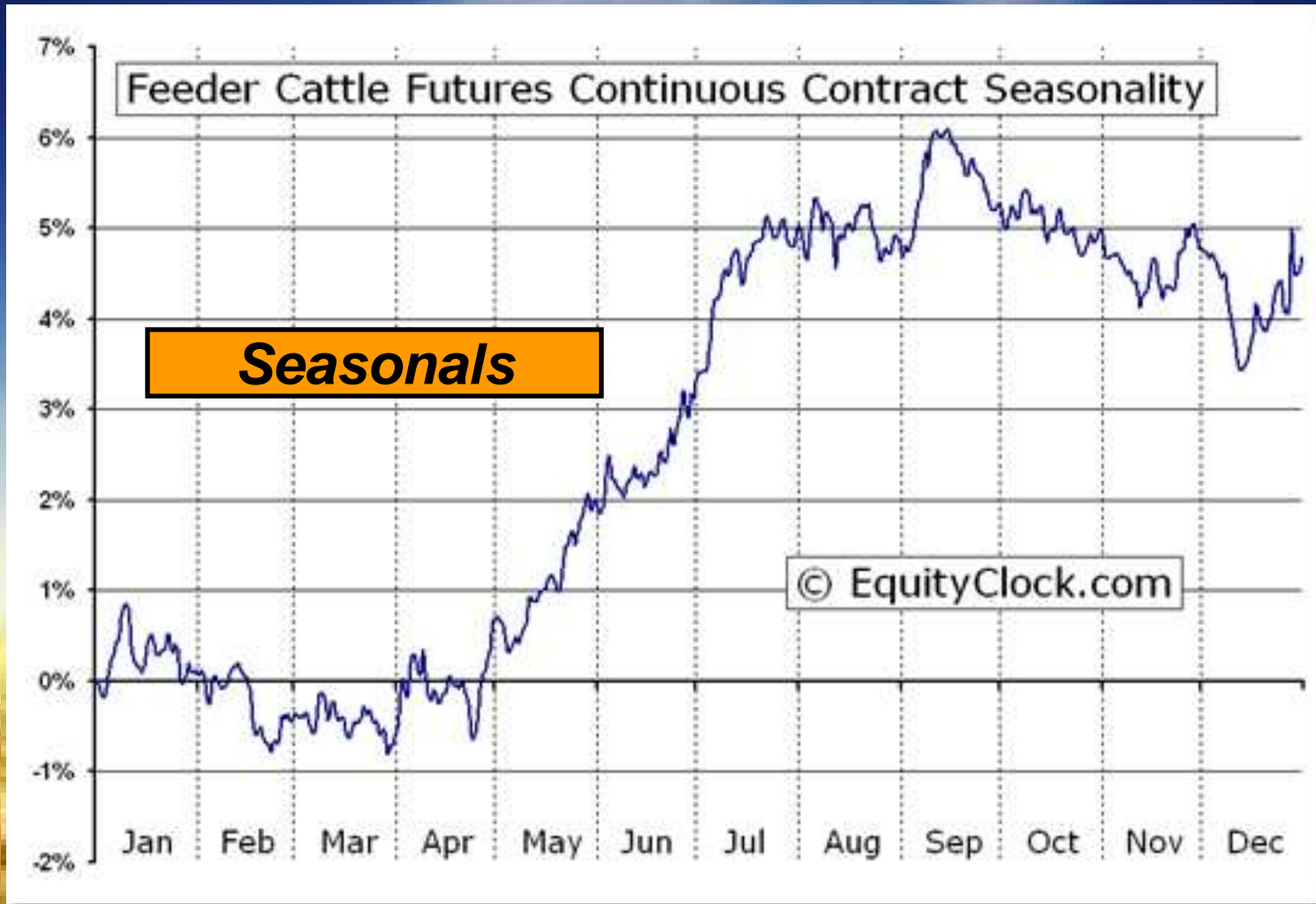




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## *Practical Option Hedging Examples:*

- *Protective Put – Soybeans*
  - *Covered Call – Wheat*
- *Long Call: Cash Substitute – Soybeans*
- *Low-Cost Option – Canadian Dollar*

*(Options trading entails risk; please talk to your commodity futures advisor before trading.)*

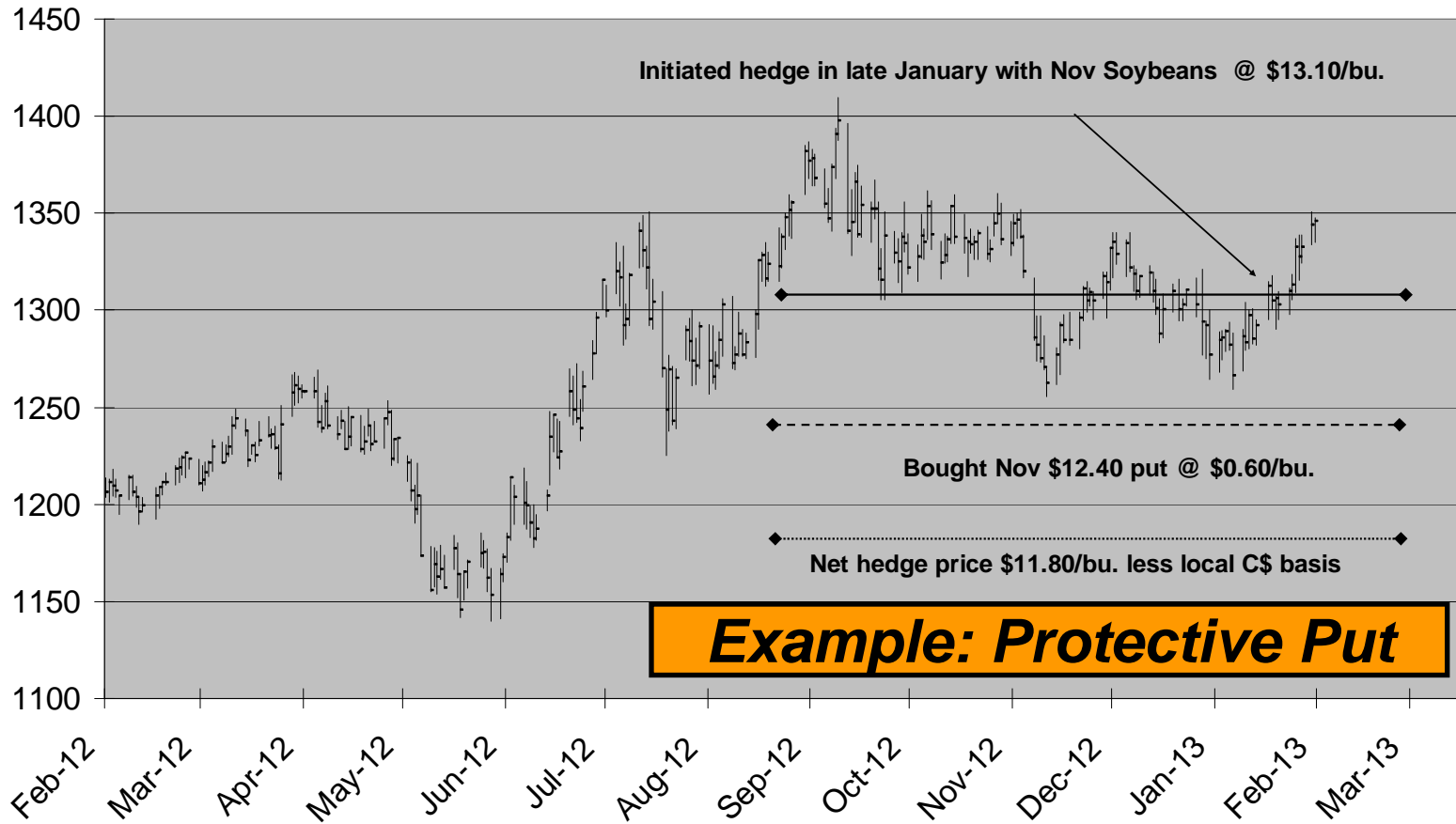


## Soybeans November 2013: Protective Put Example

- *Producer north of Winnipeg*
- *Hedge new crop for October/November*
  - *Very profitable near \$12/bushel*
- *Bought November \$12.40 put @ \$0.60; net floor price of \$11.80*
  - *Can also participate in upside of higher prices*



## Soybeans November 2013





## ***SUMMARY: Protective Put Example***

- *Downside protection below \$11.80/bu. less local basis  
(Put strike price \$12.40 – Put Premium \$0.60 = \$11.80)*
- *Upside potential above floor \$11.80/bu. less local basis  
(Put strike price \$12.40 - Put Premium \$0.60 = \$11.80)*

**For the cost of insurance premium to protect the downside,  
you can also participate in upside of higher prices.**



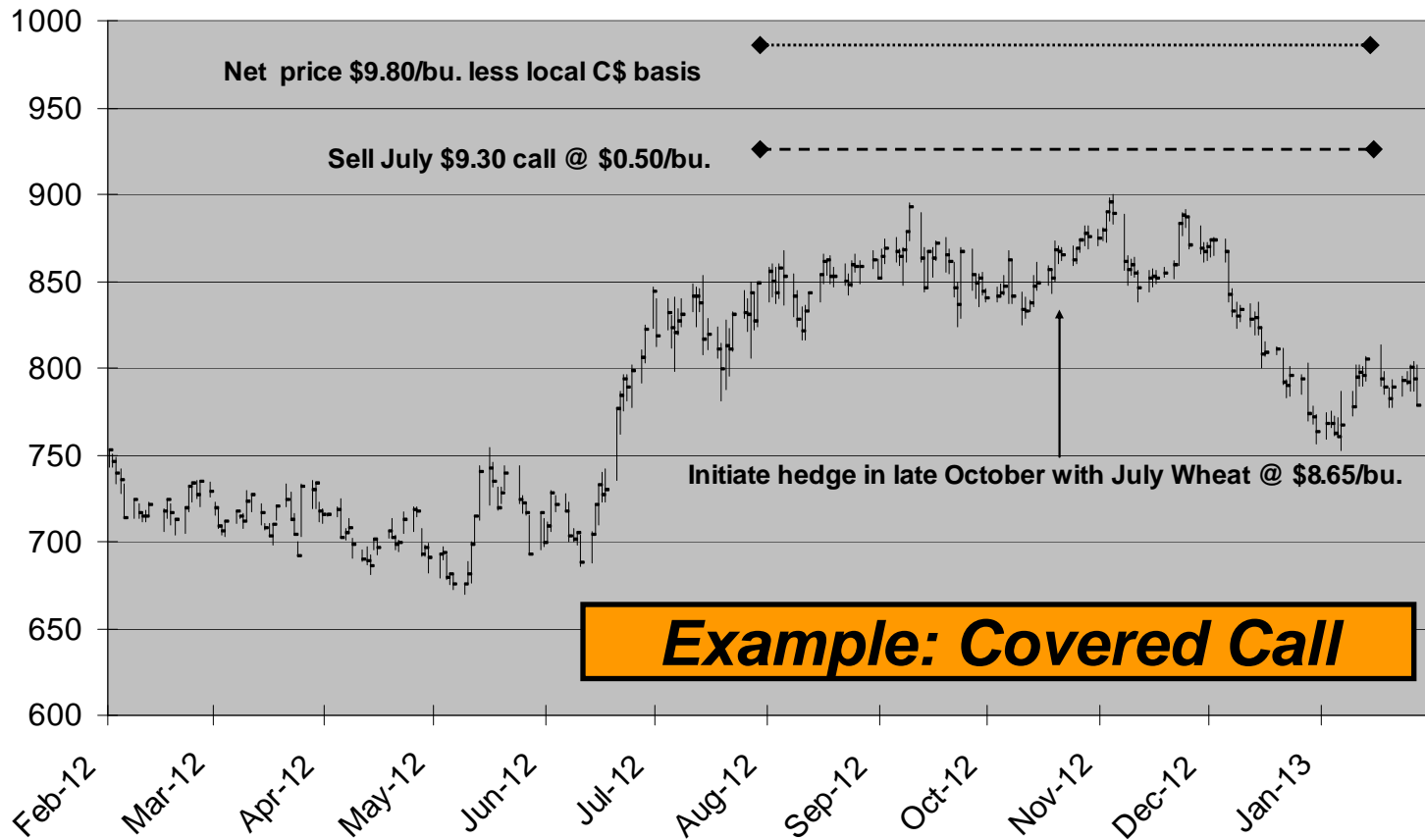


## Chicago Wheat July 2013: Covered Call Example

- *Believes prices will go higher*
- *Store grain instead of selling*
- *Sell July \$9.30 calls to collect premium of \$0.50*
- *Premium reduces risk & creates cash flow*



## Chicago Wheat July 2013





## **SUMMARY: Covered Call Example**

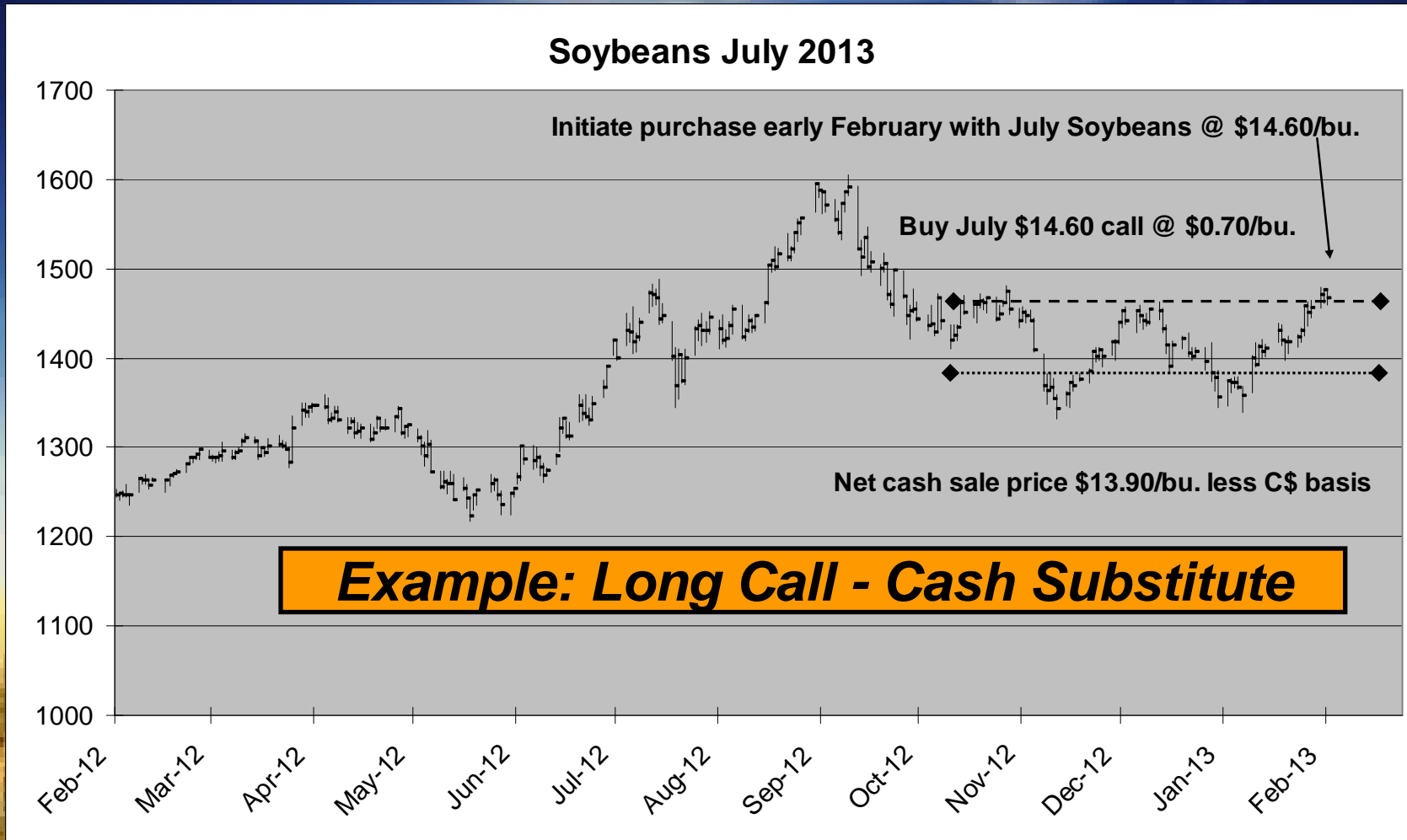
- *Collect additional \$0.50/bu.  
(Call premium of \$0.50 from selling \$9.30 calls)*
- *Additional upside to \$9.80/bu. or additional \$1.15/bu.  
(Call strike price \$9.30 + Call premium \$0.50  
– Current futures price \$8.65 = \$1.15)*
- *Minimal downside protection of \$0.50/bu.  
(Call premium collected \$0.50)*

**Premium collected offers some incremental cash flow/risk reduction,  
but with the opportunity to sell at a higher price**



## Soybeans July 2013: Long Call - Cash Substitute

- *No more storage space so needs to sell physical*
  - *Believes grains moving higher*
  - *Sell physical grain in the market*
- *Buy July \$14.60 calls @ \$0.70 to benefit from upside*





## ***SUMMARY: Long Call - Cash Substitute***

- *No downside inventory risk, sold physical grain in cash market at equivalent of \$13.90/bu. less local basis*
  - *Upside potential above \$15.30/bu.*  
*(Call strike price \$14.60 + Call premium \$0.70 = \$15.30)*

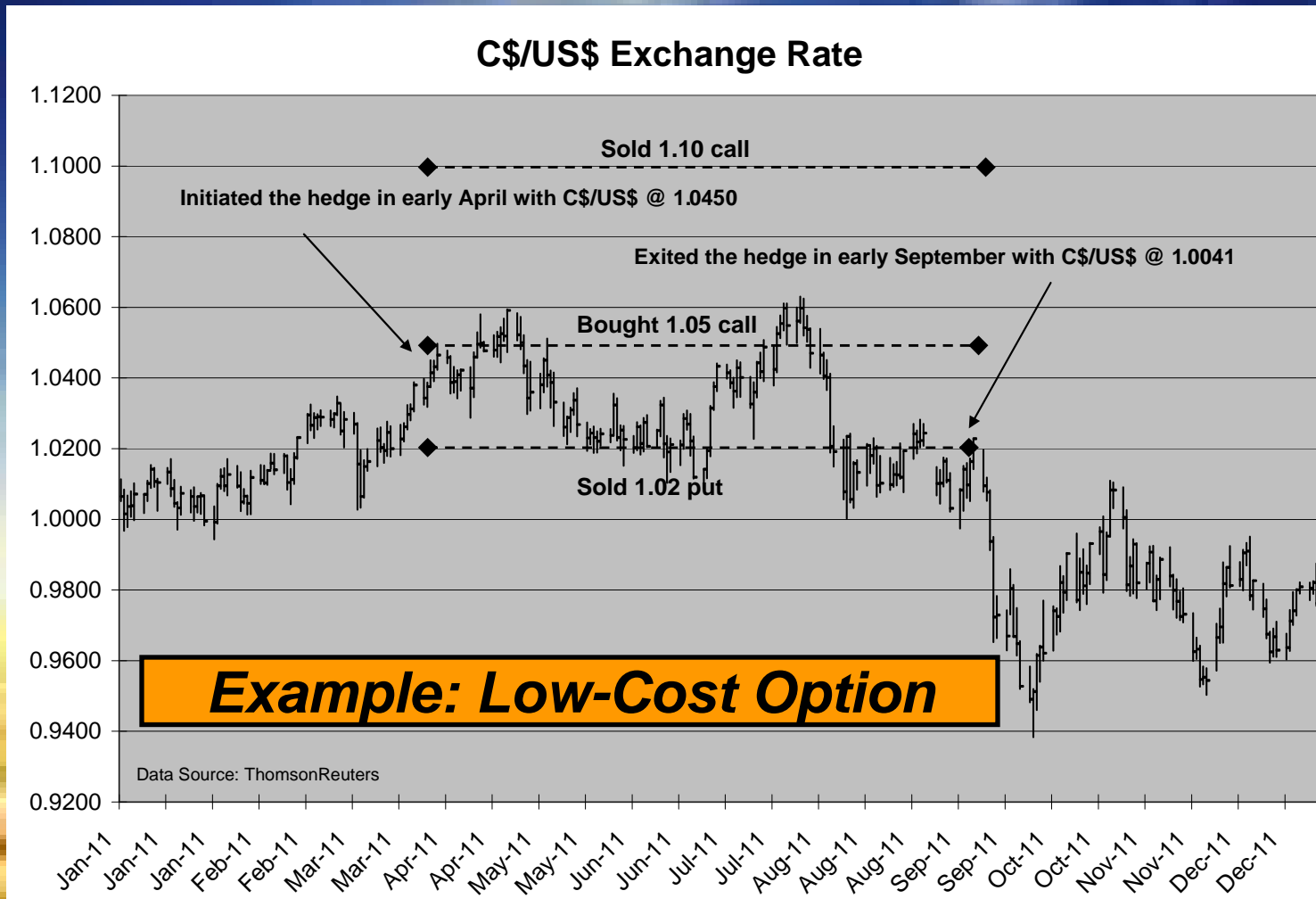
**For price of call premium, you can sell your cash crop,  
but still benefit from potential higher prices**



## ***C\$/US\$ Exchange Rate: Low-Cost Option***

- *Manitoba exporter selling seeds and pulse crops to Asia*
  - *C\$ range nickel either side of par: 0.95 to 1.05*
    - *Concerned about move above 1.0500*
    - *Wanted some benefit of slightly weaker C\$*
- *Buy/sell combination of calls & puts at little to no premium cost*

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## **SUMMARY: Low-Cost Option**

- *Gain on cash C\$:  $1.0450 - 1.0041 = 0.0409$*
- *Short put offset:  $1.0200 - 1.0041 = 0.0159$*
- *Net benefit: Cash gain  $0.0409$  – Put offset  $0.0159 = 0.0250$   
OR difference between Cash  $1.0450$  – Put strike  $1.0200 = 0.0250$*

**Net benefit from flexible hedge strategy that allowed conversion into a weaker C\$ at 1.0200 vs. locking in forward at 1.0450**

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Since 1995, our team has grown to deliver a full range of investment strategies to reduce risk & create cash-flow for individual, corporate & institutional clients across Ontario & Western Canada.

## QUESTIONS?

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*800-661-0298 ext. 7*



**Grain Risk Management with Agricultural Options**



# THANK YOU!!!

*Disclaimer: Options and Commodity trading has inherent risks where significant loss of capital may occur. Investors should consult with their investment advisor to determine if options trading is suitable for their portfolio and risk tolerance profile. This document has been prepared by David Derwin & Joseph Alkana, Investment advisors for PI Financial Corp, for information purposes only. This is not an official publication of PI Financial Corp. and the author is not a PI Financial Corp. analyst. The views expressed herein are those of the author alone, not necessarily those of PI Financial Corp. The information contained herein has been obtained from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does PI Financial Corp. assume any responsibility or liability. This document is not to be construed as an offer to sell or a solicitation of an offer to buy any securities and is intended for distribution only to those jurisdictions where PI Financial Corp. is registered as an advisor or a dealer in securities. The inventories of PI Financial Corp, its affiliated companies and the holdings of their respective directors and officers and companies with which they are associated may from time to time include the securities mentioned herein. PI Financial Corp. is a member of the Canadian Investor Protection Fund & the Investment Industry Regulatory Organization of Canada.*